

## NEW APPLICATION

## BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE - Chairman  
BOB BURNS  
ANDY TOBIN  
BOYD DUNN  
JUSTIN OLSON

In the matter of:

VERDUGO ENTERPRISE LLC, an Arizona  
limited liability company d/b/a VERDUGO  
GIFT COMPANY,

ISAIAS M. VERDUGO, a single man,

JAIME A. VERDUGO, a single man,

MARIA G. VERDUGO, a single woman,

MARIO C. VERDUGO Jr., a single man,

TEODORO M. MEDELLIN and SILVIA  
MEDELLIN, husband and wife, and

FILEMON G. CABALLERO, a married  
man,

Respondents.

DOCKET NO. S-21064A-18-0402

**NOTICE OF OPPORTUNITY FOR HEARING  
REGARDING PROPOSED ORDER TO CEASE  
AND DESIST, ORDER FOR RESTITUTION,  
ORDER FOR ADMINISTRATIVE  
PENALTIES, AND ORDER FOR OTHER  
AFFIRMATIVE ACTION**

**NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING  
EACH RESPONDENT HAS 30 DAYS TO FILE AN ANSWER**

The Securities Division ("Division") of the Arizona Corporation Commission ("Commission") alleges that Respondents Verdugo Enterprise LLC doing business as Verdugo Gift Company, Isaias M. Verdugo, Jaime A. Verdugo, Maria G. Verdugo, Mario C. Verdugo Jr., Teodoro M. Medellin, and Filemon G. Caballero have engaged in acts, practices, and transactions that constitute violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

The Division also alleges that Isaias M. Verdugo is a person controlling Verdugo Enterprise LLC doing business as Verdugo Gift Company within the meaning of A.R.S. § 44-1999(B), so that

1 Isaias M. Verdugo is liable to the same extent as Verdugo Enterprise LLC doing business as Verdugo  
2 Gift Company for its violations of the anti-fraud provisions of the Securities Act.

3 **I.**

4 **JURISDICTION**

5 1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona  
6 Constitution, and the Securities Act.

7 **II.**

8 **RESPONDENTS**

9 2. Verdugo Enterprise LLC ("Verdugo Enterprise") is a manager-managed limited liability  
10 company that was organized under the laws of the state of Arizona in June 2006. At all times relevant,  
11 Verdugo Enterprise was doing business as Verdugo Gift Company, and neither Verdugo Enterprise nor  
12 Verdugo Gift Company were registered with the Commission as a securities salesman or dealer.

13 3. At all times relevant, Isaias M. Verdugo ("I.M. Verdugo") has been a resident of  
14 Arizona. I.M. Verdugo is the sole manager and statutory agent for Verdugo Enterprise and has not been  
15 registered with the Commission as a securities salesman or dealer.

16 4. At all times relevant, Jaime A. Verdugo ("J.A. Verdugo") has been a resident of Arizona.  
17 J.A. Verdugo has not been registered with the Commission as a securities salesman or dealer.

18 5. At all times relevant, Maria G. Verdugo ("M.G. Verdugo") has been a resident of  
19 Arizona. M.A. Verdugo has not been registered with the Commission as a securities salesman or dealer.

20 6. At all times relevant, Mario C. Verdugo Jr. ("M.C. Verdugo") has been a resident of  
21 Arizona. M.C. Verdugo has not been registered with the Commission as a securities salesman or dealer.

22 7. At all times relevant, Teodoro M. Medellin ("Medellin") has been married to Silvia  
23 Medellin, and both are residents of Arizona. Medellin has not been registered with the Commission as  
24 a securities salesman or dealer.

25 ...

26 ...

8. At all times relevant, Filemon G. Caballero ("Caballero") has been a resident of Arizona. Caballero is a married man; however, his spouse is a resident of Mexico. Caballero has not been registered with the Commission as a securities salesman or dealer.

9. Silvia Medellin was at all relevant times the spouse of Medellin and may be referred to as “Respondent Spouse.” Respondent Spouse is joined in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the marital community.

10. At all times relevant, Medellin has been acting for his own benefit and for the benefit or in furtherance of Medellin's and Respondent Spouse's marital community.

11. Verdugo Enterprise doing business as Verdugo Gift Company (hereinafter, “VGC”), I.M. Verdugo, J.A. Verdugo, M.G. Verdugo, M.C. Verdugo, Medellin, and Caballero may be referred to collectively as “Respondents.”

### III.

## OVERVIEW

12. In 2006, I.M. Verdugo created VGC for the purpose of purchasing bulk quantities of “home decor” products and reselling these products for a profit. Initially, I.M. Verdugo operated VGC out of his garage and stored the products there. I.M. Verdugo sold the products at swap meets, street corners, yard sales, and to family and friends. Later, I.M. Verdugo established a website for VGC and sold products online.

13. In 2009, VGC began to sell products through Amazon.com, Inc. (“Amazon”). During this time-period, I.M. Verdugo stopped storing inventory in his garage; instead, he used drop shipping companies to fulfill VGC’s orders on Amazon. VGC listed various drop shipping companies’ home decor products on Amazon and sold the products for a profit. When, VGC received a sale on Amazon, I.M. Verdugo “placed the order with the drop shipper and they shipped it directly to the customer.”

14. Eventually, VGC sales began to “take off” on Amazon, beyond what I.M. Verdugo “could have imagined.” According to I.M. Verdugo, because of the brisk sales he “did not have the cash” he needed to “fulfill the Amazon orders.” He was faced with the challenge of either freezing

1 VGC's Amazon account or getting "the money from somewhere," and/or finding somebody to lend  
2 him money so he could fulfill those orders.

3 15. During the above time-period, I.M. Verdugo raised investment capital from a former  
4 co-worker. Several short-term promissory notes ("Note(s)") were executed between VGC and I.M.  
5 Verdugo's former co-worker. According to I.M. Verdugo, each Note promised a return of 30%  
6 interest compounded monthly. I.M. Verdugo used the investment capital "to purchase products for  
7 the company [VGC]," and to "fulfill drop ship orders from Amazon." Many of the former co-  
8 worker's Notes were allowed to be rolled over [with the same and/or similar terms] for numerous  
9 months and/or years past the original maturity date, which generated large returns for the former co-  
10 worker. Later, I.M. Verdugo admitted that his former co-worker received significant returns and that  
11 paying 30% interest compounded monthly on the Notes was "very excessive."

12 16. In 2013, I.M. Verdugo leased warehouse space, which included an attached office  
13 space in Phoenix, Arizona, and operated VGC out of the warehouse. Shortly thereafter, VGC  
14 resumed purchasing bulk quantities of home decor products. VGC shipped most of the products to  
15 an Amazon Fulfillment Center, which stored the VGC inventory. Amazon shipped the VGC orders  
16 directly to the customers. VGC also maintained inventory in its warehouse, which was used to drop  
17 ship home decor products for various online retailers [including Wayfair, Inc. and Overstock.com,  
18 Inc.] for a profit. If a drop ship order was placed with VGC, VGC shipped the products directly to  
19 the online retailers' customers.

20 17. According to I.M. Verdugo, VGC was a "very profitable business on Amazon," if he  
21 purchased \$1000 in inventory he "could easily make that into \$2,000" or "\$2,500." I.M. Verdugo  
22 "wanted to grow" VGC as quickly as possible. Subsequently, I.M. Verdugo hired the following  
23 family members to work at VGC: J.A. Verdugo and M.C. Verdugo (his brothers); M.G. Verdugo (his  
24 sister); and Caballero (his ex-brother-in-law, who was previously married to M.G. Verdugo).

25 18. As VGC's business grew, VGC needed more capital to purchase inventory. I.M.  
26 Verdugo decided to forgo the traditional financing route, and instead chose to solicit and raise capital



1 from investors, primarily from Hispanic Christian churches and/or their congregations, mostly in  
2 Arizona.

3 19. Respondents were able to raise investment capital from Hispanic Christian  
4 communities in Arizona and the surrounding states, because of their various connections to these  
5 communities. According to I.M. Verdugo, he and his family grew up attending a local Hispanic  
6 Christian church, and many of the investors knew him [since he was child] from church. Also,  
7 Caballero was a former pastor at a local Hispanic Christian church and was well known throughout  
8 the Hispanic Christian community. VGC paid commissions (up to 5%) to Caballero, and pastors,  
9 including Medellin [who is pastor at a local Hispanic Christian church] to bring in and/or offer and  
10 sell VGC's Notes to investors (hereinafter, "VGC Investors"). The commissions were based on the  
11 amount of money a VGC Investor invested. Many of the VGC Investors trusted the Respondents and  
12 the VGC investment opportunity, because of the Respondents' church affiliations.

13 20. From at least 2014 through at least 2017, several hundred VGC Investors invested in  
14 short-term Notes and were promised 10-20% interest compounded monthly. The Respondents  
15 represented that each VGC Investor would at least receive their principal investments back. VGC  
16 allowed and/or encouraged a significant amount of the VGC Investors to roll over their Notes [with  
17 the same and/or similar terms] for several months and/or years past the original maturity date of the  
18 Notes. Each time a Note was rolled over, a new Note was executed, which reflected the new maturity  
19 date and the increased promised amount due on the new maturity date.

20 21. Most of the VGC Investors that rolled over their Notes for numerous cycles were  
21 promised significant returns [sometimes six figure returns]; however, many of these VGC Investors  
22 did not receive their principal investments back and did not receive any returns and/or only received  
23 partial returns on their investments. Respondents VGC and I.M. Verdugo failed to disclose to some  
24 of the later VGC Investors that some prior VGC Investors did not receive any returns on their  
25 investments and did not receive their principal investments back.  
26

22. I.M. Verdugo admitted, that at least 150 VGC Investors “didn’t get their principal back.” I.M. Verdugo further admitted, that VGC “was having issues paying back or sustaining this model ... we [VGC] were paying way too much interest ... we were never going to be able to pay everybody’s [VGC Investors’] interest.”

#### IV. FACTS

23. From at least September of 2014, until at least January of 2017, Respondents offered and sold securities in form of Notes within or from Arizona to at least 380 VGC Investors, of which at least 337 of the VGC Investors were Arizona residents. The VGC Investors collectively invested at least \$6,586,600. Respondents represented to the VGC Investors that they were raising investment capital to purchase inventory [home decor products] for the purpose of fulfilling online orders.

24. All Notes were written in English and essentially identical, except for the listing of the VGC Investor's name, principal investment amount, promised interest rate, and maturity date. The Notes contained the following same or similar relevant language:

- Parties: the undersigned is I.M. Verdugo on behalf of VGC, the borrower;
- Responsibility: although more than one person may sign this agreement, each of the undersigned, understand that they are each as individuals responsible and jointly and severally liable for paying back the full amount;
- Repayment: the borrower will repay the amount of this note in full (principal plus interest) on the specified due date;
- Default: if for any reason the borrower fails to make any payments on time, borrower shall be in default. The lender can demand immediate payment of the entire remaining unpaid balance of the note, without further notice; and
- **Principal guarantee: VGC agrees to keep assets equal to or greater than the value of all combined investment loans. In the event of non-payment of this note assets should be sold, and proceeds collected should be used to pay the principal**

1           **amount of this note. VGC must furnish a detailed statement of all assets upon**  
2           **written request within 14 business days of receiving the request** (emphasis added).

3           25.   VGC Investors' only role was to provide capital and they did not have any  
4           discretionary authority regarding VGC's business operations. Respondents represented to the VGC  
5           Investors that their investments were safe and guaranteed that they would at least get their principal  
6           investments back. Respondents further represented that the VGC Investors would get paid back from  
7           the profit of VGC's online sales proceeds.

8           26.   I.M. Verdugo admitted that he did not ask any of the VGC Investors questions about  
9           their financial status or investment experience. And, there were no "restrictions as to who could invest  
10          ... anybody could invest" regardless of their financial status and investment experience.

11          27.   During the above relevant time-period, many congregants from various Hispanic  
12          Christian churches and/or communities heard about the VGC investment opportunity by "word of  
13          mouth" and/or from Medellin, Caballero, and others. According to I.M. Verdugo, many of these  
14          congregants and others contacted VGC's office, via telephone, and/or just went [without  
15          appointments] to VGC's office to learn more about the investment opportunity and/or to find out if  
16          VGC was still accepting investors. Respondents informed these potential investors ("Offeree(s)")  
17          that VGC was still accepting investors and described VGC as an online business that sold home decor  
18          products mainly online through Amazon, and that investment capital was being raised to buy more  
19          inventory.

20          28.   According to I.M. Verdugo, he spoke with at least 200 of these congregants and others  
21          [primarily the individuals that spoke English] and discussed the investment opportunity and the exact  
22          terms of the Notes, including the guaranteed return of principal. Based on I.M. Verdugo and/or the  
23          Respondents' representations they invested.

24          29.   According to I.M. Verdugo, at least 100 of the congregants and/or others that were  
25          interested in VGC's investment opportunity, only spoke Spanish. I.M. Verdugo's Spanish speaking  
26          abilities were limited; so, Respondents Caballero, J.A. Verdugo, M.G. Verdugo and M.C. Verdugo

1 discussed the VGC investment opportunity in Spanish with these Offerees and/or translated the terms  
2 of Notes from English to Spanish. Based on the above-mentioned Respondents' representations,  
3 including the guaranteed return of principal, the Offerees invested.

4 **\$6,000 Policy**

5 30. From at least October 2016, through at least January 2017, Respondents VGC, and  
6 I.M. Verdugo instituted and enforced an unwritten investment return policy, which restricted the  
7 amount of money a VGC Investor could be paid out on his or her Note. According to I.M. Verdugo,  
8 VGC Investors were limited to receiving only \$6,000 every two-weeks ("\$6,000 Policy"); even if the  
9 VGC Investors' Notes were due in full and they were owed more than \$6,000 and/or they did not  
10 want to roll over their Notes. In effect, the \$6,000 Policy forced some of the VGC Investors to roll  
11 over their Notes every two-weeks, which is contrary to the explicit terms of Notes.

12 31. I.M. Verdugo admitted, that the \$6,000 Policy was not written in any of the VGC  
13 Investors' Notes, and that many of the VGC Investors "weren't too happy" about finding out this  
14 policy after they invested and/or were expecting to receive a full return of their investments during  
15 this time-period.

16 32. Respondents failed to disclose the \$6,000 Policy to the VGC Investors prior to their  
17 investments.

18 **J.A. Verdugo**

19 33. In or about 2015, J.A. Verdugo began working full time in VGC's warehouse and  
20 attached office space. J.A. Verdugo assisted Offerees [primarily the Spanish speaking ones] and VGC  
21 Investors that wanted to roll over their Notes. J. A. Verdugo discussed VGC's investment opportunity  
22 in detail, including the guaranteed return of the principal with the Offerees. J.A. Verdugo also  
23 translated the Notes from English to Spanish for the VGC Investors.

24 34. J.A. Verdugo rolled over Notes for at least ten VGC Investors. J.A. Verdugo executed  
25 at least one of the rolled over Notes in I.M. Verdugo's name.  
26



1           35.     On October 25, 2016, J.A. Verdugo represented to at least one VGC Investor that  
2     “VGC had a lot of money and that he would pay out of his pocket if any problems occurred with the  
3     rolled over Note.” Contrary to that statement, there were at least eight prior VGC Investors whose  
4     Notes were due on or before October 22, 2016, and none of these VGC Investors received any returns  
5     on their investments and did not receive their principal investments back.

6           36.     J.A. Verdugo offered and sold Notes to at least three VGC Investors.

7           37.     In November of 2016, J.A. Verdugo represented to at least two VGC Investors that  
8     their investments were safe and/or there were no risks involved with their investments. Contrary to  
9     that statement, there were at least eight prior VGC Investors whose Notes were due on or before  
10    October 22, 2016, and none of these VGC Investors received any returns on their investments and  
11    did not receive their principal investments back.

12          38.     J.A. Verdugo failed to disclose the \$6,000 Policy to any of the above-mentioned VGC  
13    Investors prior to their investments.

14    **M.G. Verdugo**

15          39.     During the relevant time-period, M.G. Verdugo was the office manager of VGC. As  
16    the office manager, M.G. Verdugo scheduled appointments with Offerees and/or VGC Investors  
17    whose Notes were due. M.G. Verdugo explained the terms of the Notes, including the guaranteed  
18    return of principal to the Offerees. M.G. Verdugo represented to the Offerees that the Respondents  
19    were raising investment capital to purchase inventory.

20          40.     During November 2016 through January 2017, M.G. Verdugo offered and sold Notes  
21    to at least two VGC Investors. M.G. Verdugo executed at least one of the Notes in I.M. Verdugo’s  
22    name.

23          41.     On or about November 14, 2016, M.G. Verdugo represented to at least one VGC  
24    Investor that there were no risks involved with his investments “because he [the VGC Investor] would  
25    be paid like many other successful investors.” Contrary to that statement, there were at least eight  
26    prior VGC Investors whose Notes were due on or before October 22, 2016, and none of these VGC

1 Investors received any returns on their investments and did not receive their principal investments  
2 back.

3 42. On or about January 12, 2017, M.G. Verdugo represented to at least one VGC Investor  
4 that VGC was “doing well” and guaranteed to that she would receive her principal investment back.  
5 Contrary to that statement, there were at least ten prior VGC Investors whose Notes were due on or  
6 before January 7, 2017, and none of these VGC Investors received any returns on their investments  
7 and did not receive their principal investments back.

8 43. M.G. Verdugo failed to disclose the \$6,000 Policy to any of the above-mentioned  
9 VGC Investors prior to their investments.

10 **M.C. Verdugo**

11 44. During the relevant time-period, M.C. Verdugo was the general manager of VGC. As  
12 the general manager, M.G. Verdugo was authorized by I.M. Verdugo to execute the Notes (in I.M.  
13 Verdugo’s name), and to sign checks (in I.M. Verdugo’s name) to pay the VGC Investors when their  
14 Notes were due. Also, M.C. Verdugo discussed the VGC’s investment opportunity in detail,  
15 including the guaranteed return of the principal with the Offerees, and/or translated the Notes from  
16 English to Spanish for the Offerees and the VGC Investors.

17 45. M.C. Verdugo offered and sold a Note to at least one VGC Investor. M.C. Verdugo  
18 rolled over VGC Notes for at least four VGC Investors.

19 46. On or about November 7, 2016, M.C. Verdugo represented to at least one VGC  
20 Investor that her investment was safe and that “if anything was to happen, they had insurance to cover  
21 [repay investments] in case of bankruptcy.” Contrary to that statement, there were at least eight prior  
22 VGC Investors whose Notes were due on or before October 22, 2016, and none of these VGC  
23 Investors received any returns on their investments and did not receive their principal investments  
24 back.

25 47. M.C. Verdugo failed to disclose the \$6,000 Policy to any of the above-mentioned  
26 VGC Investors prior to their investments.

**Medellin**

48. During the relevant time-period, Medellin actively promoted the VGC investment opportunity to his congregation, and to other pastors [primarily from the Hispanic Christian churches and/or communities) and received commissions for bringing in investors.

49. During church services, Medellin promoted the VGC investment opportunity to his congregation. According to M.G. Verdugo, “a lot of people from his [Medellin’s] church” were VGC Investors.

50. During a pastoral fellowship, which was a gathering/meeting of approximately forty-to-fifty pastors from various Hispanic Christian churches, Medellin promoted the VGC investment opportunity to his fellow pastors. Medellin represented that VGC was an online business that sold products through Amazon, and they were raising investment capital to purchase inventory. Medellin further represented that the VGC Notes paid out high interest rates, and that he and others have made a significant amount of money investing in VGC’s Notes. Medellin provided many of the pastors and/or congregants with VGC’s contact information.

51. Medellin followed-up with many of the pastors and/or congregants to ascertain if they were going to invest. Medellin physically accompanied several of the interested investors to VGC’s office and/or met them at VGC’s office to introduce them to the other Respondents and/or walk them through the investment process. According to I.M. Verdugo, Medellin started “bringing in a lot of people” that invested.

52. Medellin informed I.M. Verdugo that he wanted to be paid commissions for each investor that he brought in. I.M. Verdugo verbally agreed to pay Medellin up to 5% commission.

53. On or about June of 2016, Medellin arranged a meeting with several pastors, which took place at VGC’s office. During the meeting, Medellin represented that he and others made significant money by investing in VGC’s Notes. Medellin represented to at least one of the pastors that the VGC investment could help him and his congregation get a permanent place [to hold church services/mass]. Also, present at the meeting was Caballero, who explained the terms of VGC’s Notes,

1 including the guaranteed return of the principal investment, and assisted some of the pastors in  
2 completing the investment process.

3 54. Many of the pastors and/or congregants in Medellin's church were induced to invest  
4 in VGC, because of Medellin's representations that he and others made significant money off the  
5 investments, and that I.M. Verdugo was raised in the church.

6 55. From at least July of 2016, until at least January of 2017, VGC paid Medellin at least  
7 \$18,000 in commissions.

8 56. Respondents Medellin, VGC, and I.M. Verdugo failed to disclose to the relevant VGC  
9 Investors that Medellin received commissions, and that a portion of the VGC Investors' funds were  
10 used to pay Medellin's commissions.

11 **Caballero**

12 57. During the relevant time-period, Caballero was an employee of VGC, and was VGC's  
13 main liaison for Offerees and/or VGC Investors-who only spoke Spanish. Caballero's role at VGC  
14 included discussing the VGC's investment opportunity in detail with the Offerees, and/or translating  
15 the Notes from English to Spanish for the Offerees and the VGC Investors. Caballero was also  
16 responsible for bringing in new investors.

17 58. Caballero offered and sold Notes to at least eighty VGC Investors. Caballero  
18 represented to the VGC Investors "that their principal will always be safe" and that the VGC  
19 Investors' funds would only be used to purchase inventory. According to Caballero, the VGC  
20 Investors signed the Notes in front of him and gave their investment funds to him. Caballero admitted  
21 that he executed several of these Notes in I.M. Verdugo's name.

22 59. Caballero received commissions of up to 5% for the VGC Investors that he brought  
23 in. Caballero's commissions were based off the amount the VGC Investors [that he brought in]  
24 invested. According to I.M. Verdugo, a portion of the VGC Investors' funds were used to pay  
25 Caballero's commissions.

1           60.     From at least September of 2015, until at least January of 2017, VGC paid Caballero  
2 at least \$28,730 in commissions.

3           61.     Respondents Caballero, VGC, and I.M. Verdugo failed to disclose to relevant VGC  
4 Investors that Caballero received commissions and that a portion of the VGC Investors' funds were  
5 used to pay Caballero's commissions.

6     **December 2016 through January 2017**

7           62.     During the months of December 2016, through January 2017, Respondents actively  
8 encouraged VGC Investors to roll over their Notes and/or invest in new Notes. Medellin and J.A.  
9 Verdugo contacted multiple VGC Investors and represented that VGC was having a special 20%  
10 interest sale on new Notes and suggested that they invest in new Notes.

11          63.     From December 1, 2016, through January 26, 2017, Respondents raised at least  
12 \$1,409,875 in new investment capital. However, many VGC Investors whose Notes were due did not  
13 get paid and/or were informed that they could only receive \$6,000, because of the new \$6,000 Policy.  
14 Many were forced to roll over their Notes. Numerous VGC Investors were told by M.G. Verdugo,  
15 J.A. Verdugo, and/or I.M. Verdugo that VGC ran out of checks [to pay out on their Notes] and  
16 suggested that they come back later.

17          64.     On or about January 13, 2017, one VGC Investor met with I.M. Verdugo to roll over  
18 multiple Notes. I.M. Verdugo represented that he could not continue to pay him interest on the older  
19 Notes because his promised returns were significant, and VGC was running out of money and could  
20 not afford to pay these returns. Instead, I.M. Verdugo promised to pay the VGC Investor \$1,000 per  
21 month to satisfy the older Notes. Three new Notes were executed. The new Notes promised to pay  
22 the VGC Investor the following amounts: \$97,461.25; \$31,000; and \$6,419.22. In total, the new  
23 Notes reflected that the VGC Investor was owed a total of \$134,880.47 at 0% interest. However, after  
24 several months I.M. Verdugo stopped paying the VGC Investor.

25          65.     I.M. Verdugo admitted that if VGC "continued to renew these Notes that something  
26 bad was going to happen ... we were going to be forced to go into bankruptcy."



1           66.     From at least January 13, 2017, through at least January 26, 2017, Respondents  
2 continued to offer and sell Notes, even though VGC could not afford to pay-out on of the older Notes.  
3 During this time-period, Respondents raised at least \$337,600 from at least 41 VGC Investors.

4           67.     Respondents VGC and I.M. Verdugo failed to disclose to some of the later VGC  
5 Investors that prior VGC Investors did not receive any returns on their investments and did not  
6 receive the return of their principal investments. I.M. Verdugo admitted that “there were people  
7 [VGC Investors] prior to that (December 2016) that did not get paid back.”

8           68.     On or about January 27, 2017, I.M. Verdugo [without notice to the VGC Investors]  
9 closed VGC’s doors to the public, even though at least 150 VGC Investors were still owed money,  
10 including their principal. Several of these VGC Investors that did not receive any returns on their  
11 investments and did not receive a return of their principal investments and/or only received a partial  
12 return of their investments, were the same ones as mentioned-above, that were forced and/or  
13 encourage to roll over the Notes, and/or were told to come back at later date, because VGC ran out  
14 of checks.

15 **VGC Investors’ Funds Used to Operate I.M. Verdugo’s Other Companies**

16           69.     The majority of the VGC Investors’ investment funds were deposited into VGC’s  
17 business account at Wells Fargo bank. I.M. Verdugo and M.C. Verdugo were the signatories on  
18 VGC’s business account. According to I.M. Verdugo, VGC’s sales proceeds were also deposited into  
19 the same VGC business account, and I.M. Verdugo used VGC’s business account as a “general fund”  
20 to operate VGC, Glass Hobby Industries LLC (“Glass Hobby”) a limited liability company organized  
21 in the state of Arizona in April of 2016, and the Stained Glass Shop (“SGS”). I.M. Verdugo is the  
22 manager of Glass Hobby and the owner of SGS.

23           70.     According to I.M. Verdugo, he formed Glass Hobby in April of 2016, for the purpose  
24 of purchasing SGS [a company already in existence]. In June of 2016, I.M. Verdugo used funds from  
25 VGS business account to loan Glass Hobby \$150,000. I.M. Verdugo, via Glass Hobby, used the  
26 \$150,000 to purchase SGS. I.M. Verdugo admitted he used VGC’s business account to purchase

1 SGS, and that the VGC Investors' investment funds were commingled with VGC's sales proceeds.  
2 I.M. Verdugo further admitted that it was possible that a portion of VGC Investors' funds were used  
3 to purchase SGS.

4 71. Respondents VGC's and I.M. Verdugo's above-mentioned use of the VGC Investors'  
5 investment funds on I.M. Verdugo's other companies is contrary to the Respondents' representations  
6 to the VGS Investors regarding their investment funds only being used to purchase inventory for  
7 VGC.

8 72. I.M. Verdugo admitted that the Notes did not contain any disclosures regarding the  
9 VGC Investors' investment funds being used to operate I.M. Verdugo's other companies.

10 73. VGC Investors collectively invested at least \$6,586,600 and have received at least  
11 \$419,130 back. The remaining principal owed is at least \$6,167,470.

12 **Misrepresentations and Omissions of Material Fact**

13 74. Respondents misrepresented to the VGC Investors that their investment funds would  
14 only be used to purchase inventory for VGC. Instead, Respondents VGC, and I.M. Verdugo used a  
15 portion of the VGC Investors' investment funds in the following ways: to pay commission to  
16 Caballero and Medellin; to purchase SGS; and to operate Glass Hobby and SGS.

17 75. On October 25, 2016, J.A. Verdugo misrepresented to at least one VGC Investors that  
18 "VGC had a lot of money and that he would pay out of his pocket if any problems occurred with the  
19 Note," when in fact, there were at least eight prior VGC Investors whose Notes were due on or before  
20 October 22, 2016, and none of these VGC Investors received any returns on their investments and  
21 did not receive their principal investments back.

22 76. In November of 2016, J.A. Verdugo misrepresented to at least two VGC Investors  
23 that their investments were safe and/or there were no risks involved with their investments, when in  
24 fact, there were at least eight prior VGC Investors whose Notes were due on or before October 22,  
25 2016, and none of these VGC Investors received any returns on their investments and did not receive  
26 their principal investments back.

77. On or about November 6, 2016, M.C. Verdugo misrepresented to at least one VGC Investor that her investment was safe and that “if anything was to happen, they had insurance to cover [repay investments] in case of bankruptcy.” Contrary to that statement, there were at least eight prior VGC Investors whose Notes were due on or before October 22, 2016, and none of these VGC Investors received any returns on their investments and did not receive their principal investments back.

78. On or about November 14, 2016, M.G. Verdugo misrepresented to at least one VGC Investor that there were no risks involved with his investments “because he [the VGC Investor] would be paid like many other successful investors,” when in fact, there were at least eight prior VGC Investors whose Notes were due on or before October 22, 2016, and none of these VGC Investors received any returns on their investments and did not receive their principal investments back.

79. On or about January 12, 2017, M.G. Verdugo represented to at least one VGC Investor that VGC was “doing well” and guaranteed that she would receive her principal investment back. Contrary to that statement, there were at least ten prior VGC Investors whose Notes were due on or before January 7, 2017, and none of these VGC Investors received any returns on their investments and did not receive their principal investments back.

80. Respondents failed to disclose the \$6,000 Policy to the VGC Investors prior to their investments.

81. Respondents VGC and I.M. Verdugo failed to disclose to some of the later VGC Investors that some prior VGC Investors did not receive any returns on their investments and did not receive their principal investments back.

**V.**

**VIOLATION OF A.R.S. § 44-1841**

**(Offer or Sale of Unregistered Securities)**

82. From at least September 2014, to at least January 2017, Respondents offered or sold securities in the form of promissory notes, within or from Arizona.

83. The securities referred to above were not registered pursuant to Articles 6 or 7 of the Securities Act.

84. This conduct violates A.R.S. § 44-1841.

#### VI.

#### **VIOLATION OF A.R.S. § 44-1842**

##### **(Transactions by Unregistered Dealers or Salesmen)**

85. Respondents offered or sold securities within or from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act.

86. This conduct violates A.R.S. § 44-1842.

#### VII.

#### **VIOLATION OF A.R.S. § 44-1991**

##### **(Fraud in Connection with the Offer or Sale of Securities)**

87. In connection with the offer or sale of securities within or from Arizona, Respondents directly or indirectly: (i) employed a device, scheme, or artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts that were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; or (iii) engaged in transactions, practices, or courses of business that operated or would operate as a fraud or deceit upon offerees and investors. Respondents' conduct includes, but is not limited to, the following:

a) Respondents misrepresented to the VGC Investors that their investment funds would only be used to purchase inventory for VGC. Instead, Respondents VGC, and I.M. Verdugo used a portion of the VGC Investors' investment funds in the following ways: to pay commissions to Caballero and Medellin; to purchase SGS; and to operate Glass Hobby and SGS;

b) On October 25, 2016, J.A. Verdugo misrepresented to at least one VGC Investors that "VGC had a lot of money and that he would pay out of his pocket if any problems occurred with the Note," when in fact, there were at least eight prior VGC Investors whose Notes were due on or before

1 October 22, 2016, and none of these VGC Investors received any returns on their investments and did  
2 not receive their principal investments back;

3 c) In November of 2016, J.A. Verdugo misrepresented to at least two VGC  
4 Investors that their investments were safe and/or there were no risks involved with their investments,  
5 when in fact, there were at least eight prior VGC Investors whose Notes were due on or before October  
6 22, 2016, and none of these VGC Investors received any returns on their investments and did not receive  
7 their principal investments back;

8 d) On or about November 6, 2016, M.C. Verdugo misrepresented to at least one  
9 VGC Investor that her investment was safe and that "if anything was to happen, they had insurance to  
10 cover [repay investments] in case of bankruptcy." Contrary to that statement, there were at least eight  
11 prior VGC Investors whose Notes were due on or before October 22, 2016, and none of these VGC  
12 Investors received any returns on their investments and did not receive their principal investments back;

13 e) On or about November 14, 2016, M.G. Verdugo misrepresented to at least one  
14 VGC Investor that there were no risks involved with his investments "because he [the VGC Investor]  
15 would be paid like many other successful investors." Contrary to that statement, there were at least eight  
16 prior VGC Investors whose Notes were due on or before October 22, 2016, and none of these VGC  
17 Investors received any returns on their investments and did not receive their principal investments back;

18 f) On or about January 12, 2017, M.G. Verdugo represented to at least one VGC  
19 Investor that VGC was "doing well" and guaranteed that she would receive her principal investment  
20 back. Contrary to that statement, there were at least ten prior VGC Investors whose Notes were due on  
21 or before January 7, 2017, and none of these VGC Investors received any returns on their investments  
22 and did not receive their principal investments back;

23 g) Respondents failed to disclose the \$6,000 Policy to any of the VGC Investors  
24 prior to their investments; and

25 ...

26 ...



h) Respondents VGC and I.M. Verdugo failed to disclose to some of the later VGC Investors that some prior VGC Investors did not receive any returns on their investments and did not receive their principal investments back.

88. This conduct violates A.R.S. § 44-1991.

89. Respondent I.M. Verdugo directly or indirectly controlled Respondent Verdugo Enterprises doing business as VGC within the meaning of A.R.S. § 44-1999(B). Therefore, Respondent I.M. Verdugo is jointly and severally liable under A.R.S. § 44-1999 to the same extent as Respondent Verdugo Enterprises doing business as VGC for any violations of A.R.S. § 44-1991.

### VIII.

#### REQUESTED RELIEF

The Division requests that the Commission grant the following relief:

1. Order Respondents to permanently cease and desist from violating the Securities Act, pursuant to A.R.S. § 44-2032;

2. Order Respondents to take affirmative action to correct the conditions resulting from Respondents' acts, practices, or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-2032;

3. Order Respondents to pay the state of Arizona administrative penalties of up to five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;

4. Order that the marital community of Respondent Medellin and Respondent Spouse be subject to any order of restitution, rescission, administrative penalties, or other appropriate affirmative action pursuant to A.R.S. § 25-215; and

5. Order any other relief that the Commission deems appropriate.

### IX.

#### HEARING OPPORTUNITY

Each Respondent [including Respondent Spouse] may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. **If a Respondent or a Respondent Spouse requests a hearing, the**

1 **requesting Respondent must also answer this Notice.** A request for hearing must be in writing and  
2 received by the Commission within 10 business days after service of this Notice of Opportunity for  
3 Hearing. The requesting Respondent must deliver or mail the request to Docket Control, Arizona  
4 Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. Filing instructions may be  
5 obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at  
6 <http://www.azcc.gov/divisions/hearings/docket.asp>.

7 If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20  
8 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or  
9 ordered by the Commission. If a request for a hearing is not timely made the Commission may, without  
10 a hearing, enter an order granting the relief requested by the Division in this Notice of Opportunity for  
11 Hearing.

12 Persons with a disability may request a reasonable accommodation such as a sign language  
13 interpreter, as well as request this document in an alternative format, by contacting Kacie Cannon,  
14 ADA Coordinator, voice phone number (602) 542-3931, e-mail [kcannon@azcc.gov](mailto:kcannon@azcc.gov). Requests  
15 should be made as early as possible to allow time to arrange the accommodation. Additional  
16 information about the administrative action procedure may be found at  
17 <http://www.azcc.gov/divisions/securities/enforcement/AdministrativeProcedure.asp>

## 18 X.

### 19 ANSWER REQUIREMENT

20 Pursuant to A.A.C. R14-4-305, if a Respondent or a Respondent Spouse requests a hearing,  
21 the requesting Respondent must deliver or mail an Answer to this Notice of Opportunity for Hearing  
22 to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona  
23 85007, within 30 calendar days after the date of service of this Notice. Filing instructions may be  
24 obtained from Docket Control by calling (602) 542-3477 or on the Commission's website at  
25 <http://www.azcc.gov/divisions/hearings/docket.asp>.


1        Additionally, the answering Respondent must serve the Answer upon the Division. Pursuant  
2 to A.A.C. R14-4-303, service upon the Division may be made by mailing or by hand-delivering a  
3 copy of the Answer to the Division at 1300 West Washington, 3<sup>rd</sup> Floor, Phoenix, Arizona, 85007,  
4 addressed to Michael Shaw.

5        The Answer shall contain an admission or denial of each allegation in this Notice and the  
6 original signature of the answering Respondent or Respondent's attorney. A statement of a lack of  
7 sufficient knowledge or information shall be considered a denial of an allegation. An allegation not  
8 denied shall be considered admitted.

9        When the answering Respondent intends in good faith to deny only a part or a qualification  
10 of an allegation, the Respondent shall specify that part or qualification of the allegation and shall  
11 admit the remainder. Respondent waives any affirmative defense not raised in the Answer.

12        The officer presiding over the hearing may grant relief from the requirement to file an Answer  
13 for good cause shown.

14        Dated this 17<sup>th</sup> day of December 2018.

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16   
17 Mark Dinell  
18 Acting Director of Securities  
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